

# State of New Mexico

Oil and Natural Gas Administration and Revenue Database



## ONGARD

October 28, 2014

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**Joan Ishimito**, Manager Oil and Gas Severance Tax Bureau

**Martin Davis**, Information Technology Director, State Land Office

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## **ONGARD: Agenda**

### **History and Overview of ONGARD**

### **Appropriation to date**

- Progress of projects(s) against the appropriation

### **Overview of the New Mexico oil and gas market**

- Scale and scope of changes within New Mexico

### **Closing**

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## ONGARD: History

### ONGARD Service Center (OSC) created by a Joint Powers Agreement in 1990

- \$18 Million + to build the system the first time
- OSC has 12 FTE's that manage ONGARD related operations for the Tri-agencies
  - Data corrections, notice printing, help desk, resolution of all system issues and enhancements
  - Managed with \$2 Million annual operating budget
    - Less than one tenth of one percent (.09%)
    - Includes staff and system infrastructure/mainframe charges

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## ONGARD Business: at a Glance

- Has been in production for over 20 years
- Manages oil and gas accounting for both TRD and SLO
- Has collected and distributed over \$22 Billion



**TRD**

**\$1.3 Billion Collected in FY14**

-Across 1,000 active remitters, that range from global companies to regional producers

**SLO**

**\$817 Million Collected In FY14**

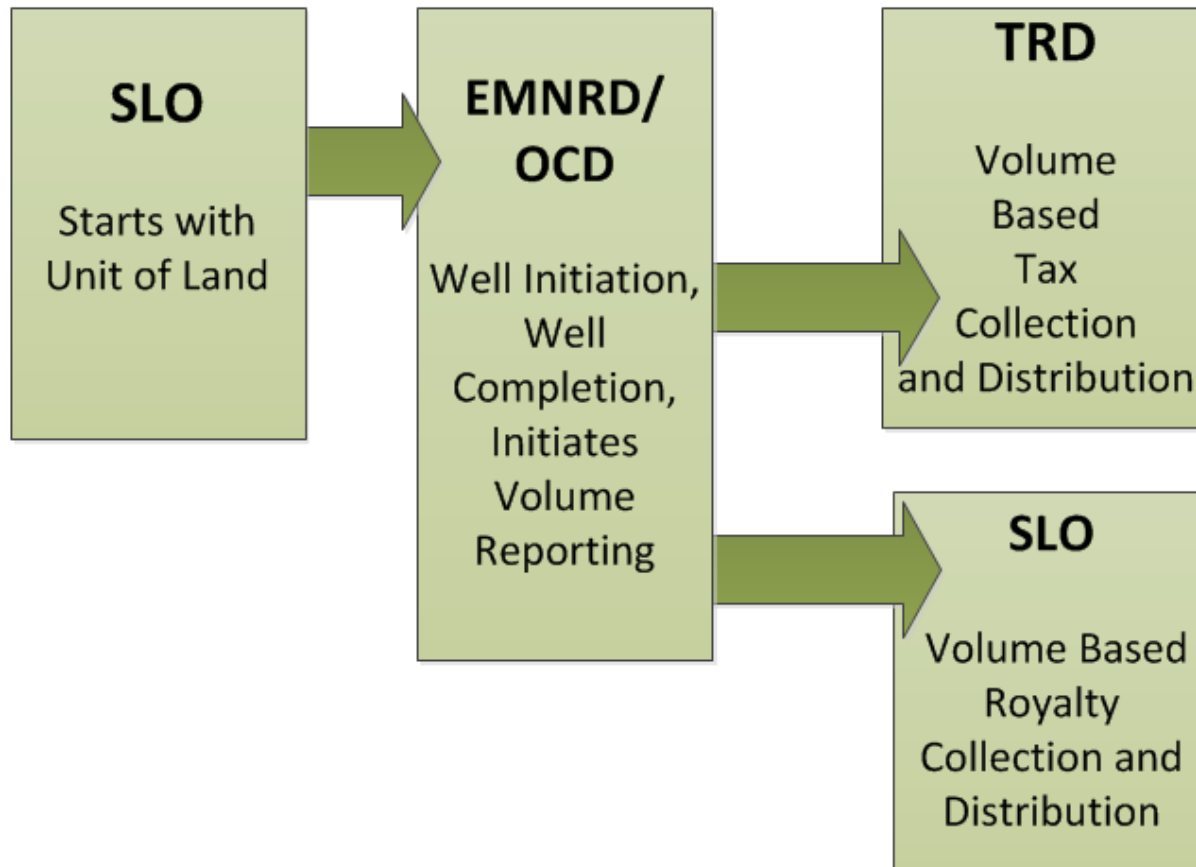
-Goes to public schools, universities, and hospitals throughout the state

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## ONGARD Tri-Agency workflow: at a Glance



*\*Tri-Agency is EMNRD, SLO and TRD as defined in the 2004 JPA*

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## ONGARD: Recent Appropriation History

### Language from the \$6 Million 2012 Appropriation:

“To ***stabilize*** the existing system and ***begin modernizing*** the oil and natural gas administration and revenue database, including issuing a request for proposals. “



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## ONGARD: Stabilization

ONGARD Stabilization Project tested and migrated system to a more current IBM Mainframe Platform and improved operational stability. This \$1.7 million project was successfully closed with the PCC in July 2014.

- Created test environments and a test/release
- Built and tested the ONGARD 40 top use cases
- Supported The Mainframe Upgrade to zOS 1.11 with no problems
- Improved code that *reduced* the need for manual data corrections
- Removed 2.5 million lines of unused/redundant code
- Improved system management processes and technologies
- Security and audit improvements
- ONGARD upgraded to Enterprise COBOL

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## ONGARD: Modernization

### The business needs will drive the technology

- Conduct an end-to-end Business Process Analysis (BPA)/Process reengineering effort to define the future processes of ONGARD
  - RFP Issued April CY2014 with Kickoff this December
- Rethink several key business rules with an eye on simplification of tax and royalty processing
- Results of BPA will be the guts of the RFP for the ONGARD replacement
  - Will let the market propose solutions as to how technology can solve the business needs



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## ONGARD: Project Timeline

- Current effort is the BPA – expect to complete late CY2015
- Issue RFP for Rebuild of ONGARD - early CY2016
- Close RFP and Kickoff the rebuild of ONGARD - late CY2016
- Freeze to current ONGARD system - late CY2017
- New system completion - January CY2019

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## ONGARD: Funding

**Of the Current \$6 Million appropriation, ~\$1,000,000 is currently not allocated**

**For FY 16, OSC requested \$33M from the Computer Enhancement fund (C-2)**

- Based on a Function Point Analysis – which estimates cost to rebuild a system based on complexity and functionality of current system

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## ONGARD: The Business Problem

### Current ONGARD system

- Antiquated and Inflexible technology infrastructure inhibits keeping up with the changes taking place in the oil and gas industry
- Need current technology in order to change the system in a timely and cost effective manner

### Changes in the industry

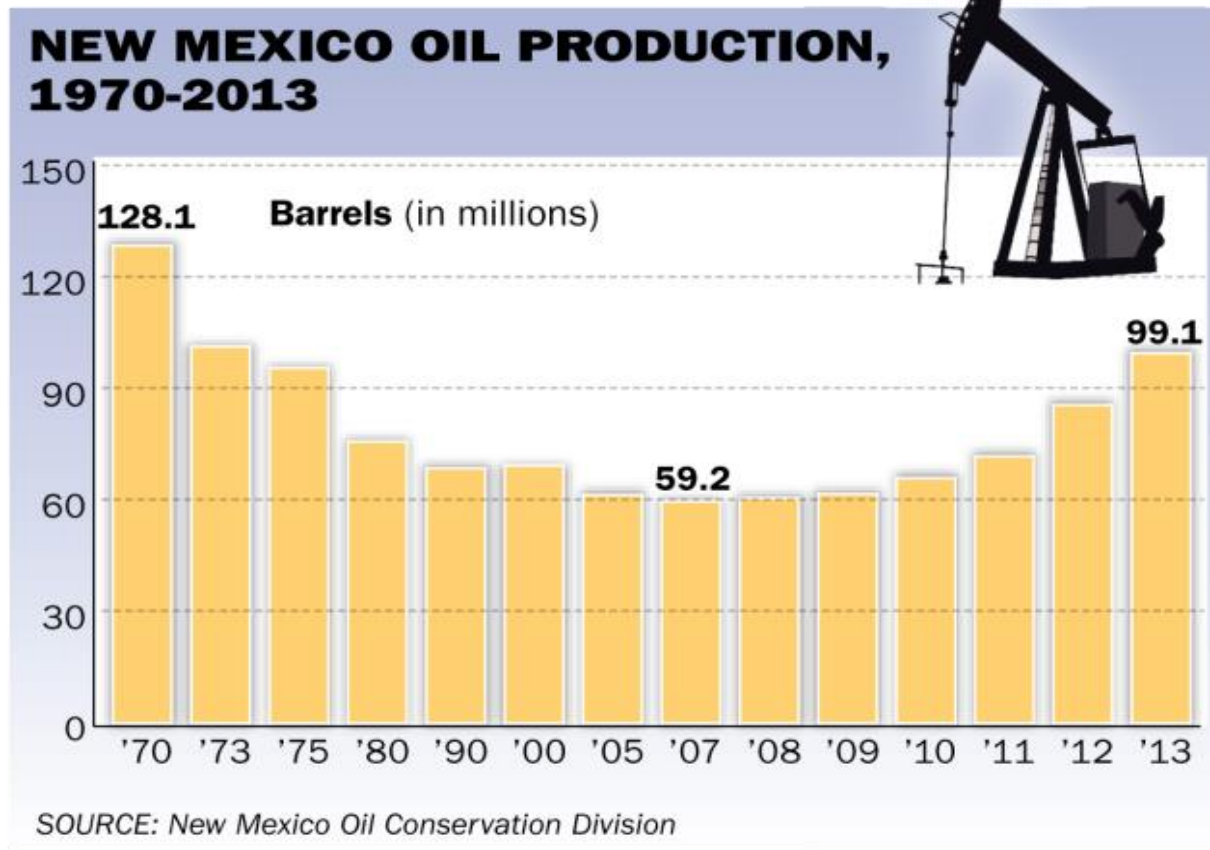
- Horizontal and multilateral drilling
  - Means a well can extract miles from the bore, with multiple bores
- Hydraulic fracturing
  - Means access to formations that were previously not profitable or accessible

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## ONGARD: Scale and Scope of Industry Changes



Roughly 250,000  
Barrels a day



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## **ONGARD: Scale and Scope of Industry Changes\***

### **Oil and gas employed 22,200 in New Mexico in 2013**

- A 1,700 increase from 2012

### **Payroll increase of \$112 Million from 2012 to 2013**

- From \$1,512M in 2012 to \$1,625 in 2013

### **In New Mexico, oil and gas jobs pay 84% more in annual average wages than average private sector wage**

- An average of \$73,105 annually

Source: Bureau of Labor Statistics, 2013

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## ONGARD: Scale and Scope of Industry Changes

Encana Corporation is expecting to drill 45 to 50 wells in the San Juan Basin, with each well costing \$4 million to \$5 million to drill, said company spokesman Doug Hock <sup>1</sup>

“More than half the active wells in New Mexico have been drilled horizontally. About 40 percent of the state’s production is due to that.” <sup>2</sup>

**Source:** 1.) Albuquerque Business First – [www.bizjournals.com](http://www.bizjournals.com) – January 17, 2014 2.) Albuquerque Journal, May 10<sup>th</sup> 2014



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## ONGARD: Why take on this project?

- Need ability to change the system to keep up with a changing industry
  - New System will likely be in production in 2030 and beyond
- New system presents opportunity to tighten compliance with tax and royalty returns and collection
  - New System will likely surpass \$22 Billion collected by current system
- 20+ year old system is beyond reasonable expected useful life
- Funding is available now from SLO with recent record revenues
- Current system doesn't resolve standing TRD deficiencies as identified in annual 3<sup>rd</sup> party audit (lack of robust transaction logging and security standards)

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## ONGARD: Closing

- New Mexico will always be in the oil and gas business
- Roughly 30% of state revenue tracked by the ONGARD system
  - Prudent to invest in the accounting of this resource
- 20+ year old system is well beyond useful life expectancy

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## Questions..?

### Appendices:

- Laws of 2012, Chapter 19, Section 7, Item 5
- Sample of Well Completion Form
- Screen Capture from Current ONGARD system

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HAFC/H 2, 3, 4, 5 & 6, aa - Page 215

(5) TAXATION AND REVENUE DEPARTMENT 6,000.0 6,000.0

To stabilize the existing system and begin modernizing the oil and natural gas administration and revenue database, including issuing a request for proposals.

Before implementation, the taxation and revenue department, the energy, minerals and natural resources department and the commissioner of public lands shall certify in writing that the oil and natural gas administration and revenue database can be migrated to the new platform, and the migration will not negatively impair their day-to-day operations or collection of revenue. The department of information technology will work with the three agencies on a detailed migration and testing plan that includes estimated costs for stabilizing the system. The plan shall be fully executed before migrating the system to the new platform. On completion of the stabilization of the existing system, the ONGARD service center, with approval of the three agencies, shall develop a five-year action plan that includes including distinct phases and estimated costs for the replacement system and shall jointly produce a request for proposals to commence the replacement of the oil and natural gas administration and revenue database. The appropriations are contingent on the ONGARD service center project manager providing timely monthly status and independent validation and verification reports to the governor, the department of finance and administration and the legislative finance committee on the platform migration and replacement system, and written verification from the three agencies that the need for the release of the appropriation exists.

Two million dollars (\$2,000,000) of the appropriation is from the lands maintenance fund.

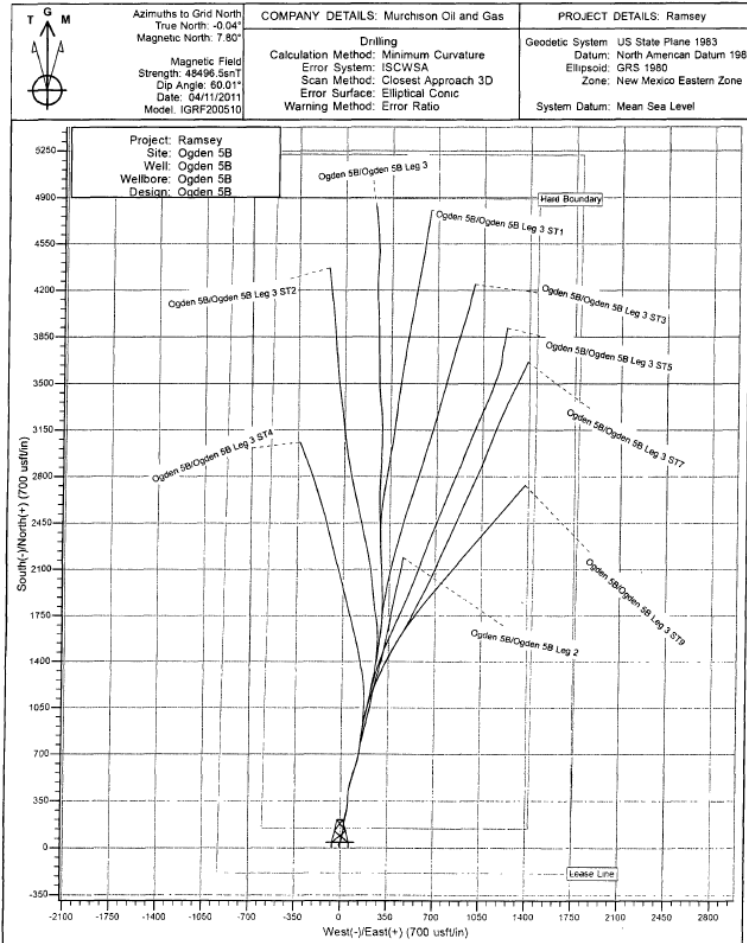
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MURCHISON OIL & GAS, INC.

MOJO



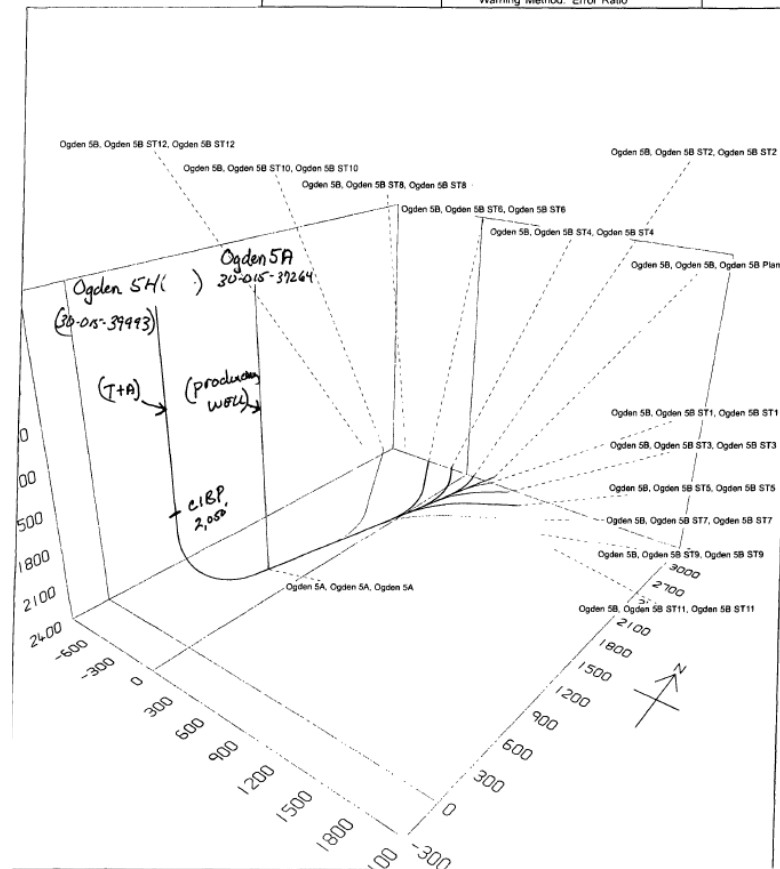
MURCHISON OIL & GAS, INC.

Project: Ogden  
 Site: Ogden 5B  
 Well: Ogden 5B  
 Wellbore: Ogden 5B  
 Design: Ogden 5B Plan

COMPANY DETAILS: Murchison Oil and Gas

MOJO

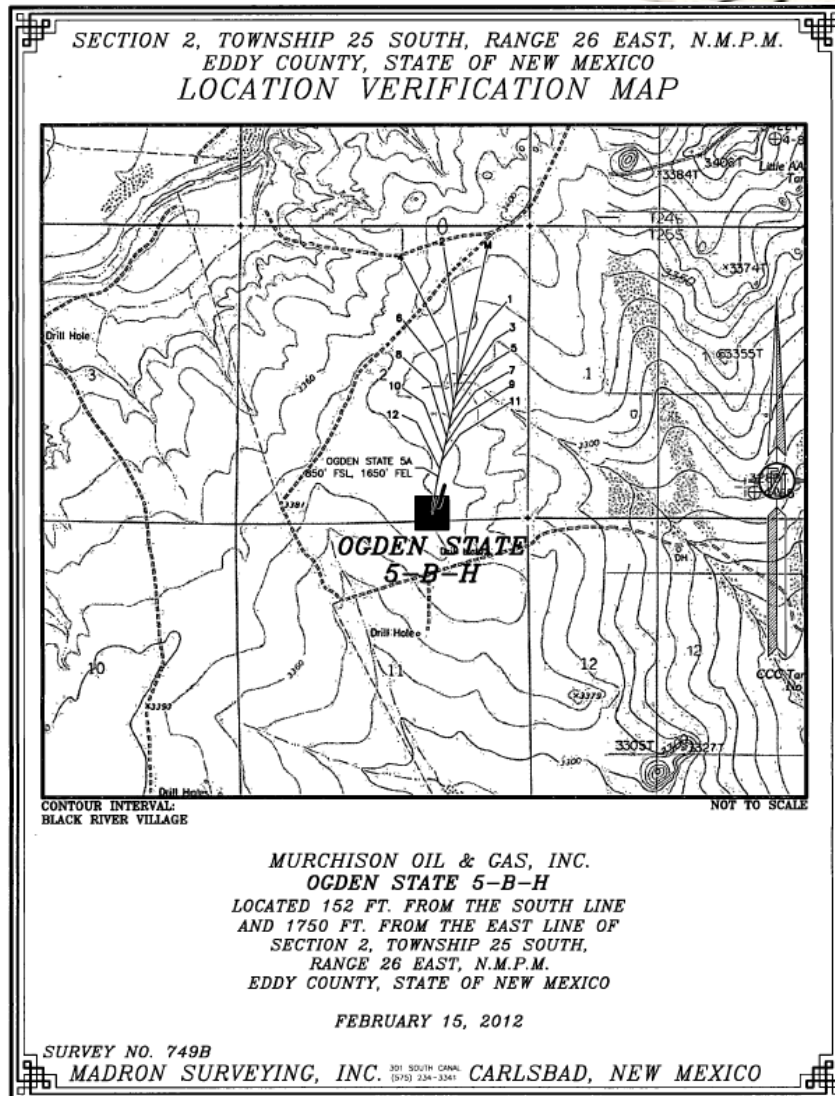
**Drilling**  
 Calculation Method: Minimum Curvature  
 Error System: ISCWSA  
 Scan Method: Closest Approach 3D  
 Error Surface: Elliptical Conic  
 Warning Method: Error Ratio





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Reflection Workspace - [TN3270-2.rd3x]

File Session Appearance Tools

TSO-OGCJT.rd3x isdcict7 - db01 - ogdev1.rd3x TN3270-2.rd3x

CMD : ONGARD 10/15/14 14:11:41  
OG1UPPY UPDATE PAYMENT DATA OGCBJT -TP0B  
Page : 1

Start Date : 10-01-2014 End Date : 10-15-2014 OGRID :  
Form Code : Remit. Code : Batch Num :  
Invalid records only (Y/N): N TRD/SLO data (T/S): T Action (U/I): U

|              |            |            |            |            |
|--------------|------------|------------|------------|------------|
| Sel. Ind.    |            |            |            |            |
| Batch Num    | 5540       | 5540       | 5541       | 5541       |
| Trans Id     | 1          | 1          | 1          | 1          |
| Item Num     | 1          | 2          | 1          | 2          |
| OGRID        | 12672      | 12672      | 122912     | 122912     |
| Proc Date    | 10-14-2014 | 10-14-2014 | 10-14-2014 | 10-14-2014 |
| Reference    | 0000000000 | 0000032937 | 0000000000 | 0000000000 |
| Postmark Dte | 10-02-2014 | 10-02-2014 | 10-03-2014 | 10-03-2014 |
| Form Code    | 1          | 4          | 1          | 1          |
| Remit Code   | 02         | 02         | 02         | 02         |
| Amount       | 432.41     | 432.41     | 5837.58    | 1309.25    |
| Batch        | 432.41     | 432.41     | 7146.83    | 7146.83    |

E0043: Record found; Authority denied to MODIFY/ADD

PF01 HELP PF02 PF03 EXIT PF04 GOTO PF05 PF06 CONFIRM  
PF07 BKWD PF08 FWD PF09 PF10 CORR.BA PF11 BACKOUT PF12

TI 0 5,16 C

Connected to the host [164.64.7.1]

CAP NUM SCRL 2:11 PM